



M e m o r a n d u m

To: Panel Members Date: May 22, 2002

From: Peter McNamee
Executive Director File:

Subject: EMPLOYMENT TRAINING PANEL (ETP) STRATEGIC PLAN FOR FY 2002-03

In anticipation of the Panel's May 22, 2002, strategic planning session, staff has prepared a discussion draft of the fiscal year (FY) 2002-03 Strategic Plan for your consideration (attached). The draft is intended to assist you in your planning efforts. Based on Panel comments and feedback provided during the strategic planning session, staff will revise the draft Plan and provide it to you for approval at the June Panel meeting and subsequent submission to the Legislature by July 1, 2002.

Staff has acquired the services of planning consultants, MGT of America, to assist in developing this year's Strategic Plan. The attached draft was developed in consultation with MGT and includes: a) an updated Mission Statement (based upon a careful review of the Panel's enabling legislation, regulations and policies); b) a proposed Vision Statement, setting ETP's course for the future; c) proposed Guiding Principles for operation of the program; d) a summary of staff's assessment of internal and external environments, noting future challenges and opportunities; and e) proposed goals and objectives for FY 2002-03.

Fred Forrer and Tammy Lozano of MGT assisted staff in developing the attached draft and will facilitate the May 22 planning session, as you work to finalize your strategies, goals, and objectives for FY 2002-03. Following submission of the Plan on July 1, 2002, staff will continue working to develop action plans and performance measures to support the Panel's goals and objectives. The action plans and performance measures will be incorporated into a finalized version of the Strategic Plan submitted for your approval in October 2002.

Please note that the May 22 meeting will feature several key speakers who will set the stage for the strategic planning session.

- A panel of economic experts will begin the session, with an overview of the California economy. Presentations will be provided by Dr. Tom Lieser of the UCLA Anderson School; Carol Zabin of the University of California, Berkeley; and Chris Cochran of the Technology, Trade and Commerce Agency.

- The economic overview will be followed by a presentation from former Senator Patrick Johnston, author of the ETP enabling legislation. Senator Johnston's viewpoints on the intent and objectives of the ETP program are key to any discussion of ETP's mission. His role in spearheading the Task Force on Workforce Preparation, with respect to the proposed California Workforce and Development Agency (CWDA), and his views on ETP's participation in the new CWDA will also provide an essential perspective on the Panel's future direction. Rona Sherriff, Consultant with the Senate Office of Research, will also participate in this discussion. She also has on-going responsibility to advise Senate budget and policy committees regarding workforce training issues. Her involvement with ETP over the years has played an integral role in shaping our organization.

These presentations will be followed by the formal strategic planning session to be facilitated by the consultants from MGT of America. I look forward to working with Panel members at this planning session as you begin to set the course for ETP's future.

Attachment

EMPLOYMENT TRAINING PANEL 2002-03 STRATEGIC PLAN

DRAFT

May 15, 2002

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A. MISSION STATEMENT

The mission of ETP is to provide financial assistance to promote customized worker training in California businesses for the purpose of:

- ◆ *Successfully competing in the global economy;*
- ◆ *Providing workers with good jobs that pay good wages; and*
- ◆ *Attracting and retaining businesses that promote a healthy California economy.*

B. VISION STATEMENT

ETP will remain a vital and effective catalyst for promoting California industries, strengthening the skills of workers and maintaining a healthy state economy. ETP will focus attention on three important areas in its development:

- *Expand ETP funding to capture and fully utilize Employment Training Tax funds.*
- *Clarify ETP's role and functions as a partner in the California Workforce Development Agency and State Workforce Development Strategy.*
- *Improve ETP's management of training investments.*

C. ETP's Guiding Principles

The Employment Training Panel operates under the following core principles:

- Only the Panel is vested with the authority to approve training contracts, or to delegate such approval, as a duly constituted body.
- The Panel's policy decisions shall be based upon rigorous research and verifiable data.
- ETP forms public-private partnerships with business and labor, and with other agencies, departments, and entities, to enhance and encourage economic development and workforce preparation in California.
- ETP shall leverage its funds with business and industry to ensure its resources are maximized and supplemented by California businesses.
- ETP shall target training funds to businesses and industries that have the maximum impact on the State's economy.
- ETP shall target training funds to ensure secure; well-paying jobs for California workers.
- ETP shall continually improve its programs and processes, based on the monitoring, oversight, and performance results of the training it funds.
- ETP shall approve training contracts and administer the program in accordance with applicable laws, regulations, and policies.
- The Executive Director is vested with authority for directing ETP and is accountable to the Governor, the Legislature, and the Panel for ETP's operation.
- ETP shall be administered with the highest degree of professionalism, by the Executive Director and the staff, to ensure all appropriate requirements are met and the public is provided excellent service, with the greatest return on investment.

D. Program Description

How ETP Fulfills Its Mission

States can have a significant impact on their economies by promoting and developing the factors critical to business success. California has adopted an economic development strategy that recognizes long-term success requires sustaining a healthy environment, maintaining a high quality of life and developing smart industries that use advanced technologies and production methodologies to increase profitability and keep their costs lower than their global competitors.

California's economic success is measured by the extent it creates and retains good jobs, enables business to generate and deliver goods and services, and creates public wealth needed to sustain and support a high quality of life. Workforce studies show that to ensure continued economic growth, California needs a workforce empowered with skills that can unleash the full potential of modern technologies to help companies operate efficiently and provide the best goods and services. Not all industries meet this standard but the ones that do can flourish and grow with the State's encouragement.

The Governor and State lawmakers have focused increased attention on California's education institutions in recent years to ensure they produce the workers and managers California's economy needs. But the vast majority of workers needed to produce the goods and services that fuel California's economy are already in the workplace. Continually up-grading the skills of these workers in order to capture the benefits of emerging new technologies and manufacturing techniques is a major challenge. Yet most of California's workforce development programs are not industry based or driven.

California's policy-makers wisely recognized this weakness in the State's economic strategy and uniquely designed the Employment Training Panel (ETP) to help fill the void of public supported industry-driven worker training. Now in its 20th year, ETP has developed a solid history of helping California companies become more successful and expand the number of secure good jobs in California's economy:

- Business data shows companies that partner in ETP training on average expand payrolls by 16 percent over similar businesses that do not participate.
- In 2001, ETP training initiatives created over 1,300 new private sector jobs paying on average almost \$10 per hour.
- Wage increases for workers completing ETP programs are approximately 20 percent higher than workers in similar companies.
- ETP helps reduce unemployment and increase job security. Measurements of continued employment show that 97 percent of the workers completing training funded by ETP are still working at least one year later. The number of employees in these companies increased by 14 percent over similar companies that did not participate in ETP training programs.
- Recent independent research found there is a return on investment of over \$5 for every \$1 in ETP funds spent on training, as measured in benefits to companies, workers, and California's economy.

Responding to Business' Needs for Trained Workers

The Employment Training Panel (ETP) is a statewide economic development program that supports California's economy by ensuring that employers have the trained workers necessary to compete successfully in the global economy. The Panel was created in 1982 with the initial mandate of addressing the large displacement of workers resulting from plant closures by moving the unemployed quickly into employment, or by saving the jobs of workers threatened with displacement. The program has always been one of collaboration between government, business, labor and other public entities. This collaboration is the key to ETP's success.

The program has evolved over the years to an increased economic development focus in support of retraining incumbent workers of businesses in basic industries challenged by out-of-state competition -- primarily in the manufacturing and high technology sectors. As such, ETP is California's only industry specific training program for incumbent workers. The Panel also funds the training of unemployed workers for high-skill, high-wage, secure jobs.

ETP strives to target its resources to meet the needs of business and workers, through collaboration with its economic development partners. ETP focuses on customer needs and prioritizes training for workers in companies facing out-of-state competition, and training unemployed workers for secure, well-paying jobs. In so doing, the Panel approves training projects that best meet the following goals of its enabling legislation:

- Training displaced/potentially displaced workers;
- Training employees of businesses locating into or expanding in the State;
- Promoting the State's manufacturing workforce;
- Projects jointly developed by management and workers;
- Developing career ladders for workers;
- Supporting businesses moving to a high-performance workplace; and,
- Stimulating exports/imports.

The Panel also emphasizes other statutory criteria – i.e., to fund training that is responsive to significant employer demand, customized to employers' needs, supplemental to training regularly provided by employers, and supported by employer contributions. In addition, the Panel responds to priorities set by the Governor and Legislature, by targeting training to high unemployment areas of the State, prioritizing training for small business, and working to reduce training fund disencumbrances (i.e., funds that are approved for training, but subsequently are not earned and thus disencumbered).

The Panel contracts with California employers, groups of employers, training agencies, and Workforce Investment Boards (WIBs), primarily to fund training and employment retention for incumbent workers of companies challenged by out-of-state competition, locating to or expanding operations in California, with the goal of maintaining the viability of these businesses.

Two major funding categories enable the Panel to address the areas of greatest need for training: Economic Development and Special Employment Training (SET).

➤ **Economic Development**

The Economic Development category provides funding for training and employment retention for incumbent workers of businesses in basic industries (i.e., those facing out-of-state competition). On a more limited scale, these funds also support training for employment of unemployed workers.

➤ **Special Employment Training (SET)**

Special Employment Training (SET) funds are available for projects for businesses where out-of-state competition is not necessarily present and for workers not necessarily linked to the Unemployment Insurance system. SET projects must target frontline workers (i.e., those workers directly producing goods or services) earning at least the State average wage. SET funding also provides for the training of the following categories of frontline workers who do not necessarily earn the State average hourly wage: a) those in high unemployment areas; b) those with multiple barriers to employment; and c) small business owners.

ETP has a unique mission and special niche in the California economy as the State's only employer-driven program supporting industry specific retraining for incumbent workers. ETP funds training by way of performance-based contracting. A contractor only earns funds if a trainee completes all of the training and a subsequent employment retention period (normally 90 days) in a job using the skills learned in training. Since it began operating, ETP has funded the training of more than 400,000 workers in 43,000 businesses. Approximately 80 percent of the businesses served have been small employers (i.e., those with 250 or fewer workers).

Succeeding BY Working Directly With Business

A major factor in ETP's success is that it works directly with businesses to stimulate the effective use of training to increase business success and strengthen workforce development. Its use of single employer and multi-employer contracts is predicated on simple yet highly effective principles:

- Businesses must examine the obstacles and opportunities to lower their costs and expand their markets and determine where customized worker training is critical to their success. Because this training is critical to business success, ETP requires companies to pay a share of the training funded by ETP.
- Since training investments help companies become more profitable, companies should share that profitability with workers involved in training. ETP contracts promote wage increases, and require employers to retain trained workers for specific periods to earn ETP funds.
- Employers are encouraged to minimize training costs and assume greater risk and responsibility for more expensive training. Most ETP contracts are based on flat rates, with requirements for trainer to trainee ratios. Companies must pay the difference between ETP rates and actual training costs. As training costs

increase, companies must evaluate the value of the training and pay a larger percentage of the training costs. While ETP allows companies and training entities to propose training at higher levels of ETP participation, it requires proof that special circumstances exist to justify a higher level of ETP investment and that businesses are sharing in the higher costs appropriately.

ETP's success results in large measure from this unique strategy of paying only for training that results in successful outcomes. Performance requirements specified in each training contract ensure that each stakeholder – company, worker and ETP – share responsibility for expanding the amount of high-wage, high-skill employment in California. ETP awards 90 percent of its training dollars to projects that retain and expand higher-wage employment, paying on average \$20 per hour.

How ETP Works

ETP remains a vital partner in California's economic development by continuously reassessing its programs and evolving its efforts to respond quickly and responsively to changing economic conditions. Last year, ETP approved projects that cushioned the impacts of 9/11, reinforced the efforts of local Workforce Investment Boards and State agencies to expand regional economic opportunities, and partnered in special efforts such as the Governor's initiative to increase the number of nurses in the workforce.

ETP accomplishes this without being a drain on the State's General Fund. ETP's programs are funded by a special employment training tax California companies pay to promote the development of an improved State workforce. Only those employers who pay this tax can directly benefit from ETP funded training.

➤ The Panel's Function

Like the companies that benefit from ETP funding, the success of ETP is a function of its organization and its workforce. Organizationally, ETP has a number of important components that influence how well it carries out its mission.

ETP is governed by an eight-member Panel. Seven members are appointed by the Governor and legislative leaders. The eighth member is the designee of the Secretary of the Technology, Trade and Commerce Agency (who is appointed by the Governor).

The purpose of the Panel is to approve or disapprove proposed training contracts, to adopt appropriate policies and regulations for ETP, and to make final determinations regarding appeals from decisions of the Executive Director.

The Governor appoints a Chair to lead the Panel's deliberations. The Panel selects a Vice Chair to assume the Chair's role when needed. All actions require a quorum of the Panel members and a majority vote of the quorum. The Panel has on some occasions held meetings in two locations using telephonic connections in order to establish a quorum and to take action on matters before the Panel. The Panel meets each month in metropolitan areas throughout the State.

➤ ETP Staff's Function

ETP has a professional staff of approximately 120 full time positions. Approximately half of the staff are located in Sacramento, with the remaining staff working out of offices located in San Diego, San Mateo, and North Hollywood.

The staff is led by the Executive Director who is appointed directly by the Governor. The Executive Director has the overall authority for administering the program. Reporting directly to the Director are two Assistant Directors; however, these positions are currently vacant and pending appointment by the Governor.

The Assistant Director of Review, Special Projects, and Outreach will assist the Director in the review and authorization of training agreements approved by the Panel; oversee and direct Special Projects and Initiatives; and, coordinate strategic marketing of the ETP program.

The Assistant Director of Project Oversight, Collaboration, Control and Public Relations will assist the Director in overseeing complex ETP projects and the contract appeal process; act as liaison for ETP to other agencies and organizations; represent the Panel in discussions with State oversight and control agencies; and coordinate education and public relations activities.

The Marketing Director and Staff Services Manager II (in charge of Special Projects) report directly to the Executive Director. The General Counsel, reporting directly to the Executive Director, is in charge of the Legal Unit, the Application Review Unit, and the Contract Review Unit.

The Manager III, reporting directly to the Executive Director, is in charge of Program Operations (i.e., the four regional development offices), the Information Technology Unit, Planning and Research Unit, Northern and Southern Monitoring Units, the Fiscal, Certification and Enrollment Unit, the Administrative Services Unit, and the Audit Unit.

The responsibilities of the various ETP units are:

- Planning and Research staff conduct internal and external research studies and program evaluations; recommend legislation, policies, and procedures; prepare legislatively required reports and other research and statistical reports; provide Legislative and Budget Hearing support; participate in statewide efforts to examine workforce preparation and economic development issues; and, develop the agency-wide Strategic Plan, Annual Report, and ad-hoc statistical reports.
- Marketing staff work in conjunction with partners in the economic development and workforce development community to increase the public's familiarity with ETP and to increase the number of contracts from specific target regions; and, respond to public requests for information.
- Application Review staff determine the contracting eligibility of primary contract holders; assign applications to the appropriate field office for development; and will be responsible for administering the new on-line application process.

- Development staff negotiate with potential contractors in the analysis and development of training contracts and amendments; provide direct assistance to contractors, developing and writing agreements; and, review and analyze projects for compliance with ETP policy, regulations, and cost effectiveness.
- Contract Review staff review amendments, agreements and other contract related documents, budgets, and contracts for compliance with ETP legislation, policy, regulations, department and state procedures; ensure the timely processing of these documents in a manner consistent with Panel schedules; and, ensure contract funds are encumbered according to the established State requirements.
- Monitoring staff provide on-going monitoring and technical assistance to contractors and other participating organizations to facilitate successful performance of ETP contracts; evaluate training and administrative activities to ensure compliance with the terms and conditions of the agreements and to identify problem areas that can be addressed and corrected to keep projects on track; and, prepare reports on the status of training agreements.
- Fiscal, Certification and Enrollment staff certify trainee eligibility for enrollment in training; process invoices; provide technical assistance to ETP staff and contractors throughout the contracting process; track administrative and Panel training expenditures; and handle accounts receivable.
- Audits staff conduct performance audits of training contracts between the ETP and contractors to ensure ETP funds are spent in accordance with applicable laws, regulations, and policies; and provide technical assistance to program management, internal staff, contractors, and other participating organizations to ensure that ETP's procedures and instructions are followed.
- Information Technology Unit (ITU) staff maintain ETP's data communications, programming, and networking; provide statewide technical support to ETP staff and customers; ensure quick communication and exchange of information with the contracting community, Legislature, Department of Finance, the Employment Development Department, ETP Field Offices, and other ETP customers and stakeholders; and, employ advanced technologies to automate processes and procedures, improving service to customers.
- Administrative Services staff provide support services to ETP staff including, but not limited to: personnel services; planning and coordinating staff training; telecommunications services; responding to public requests for information; ordering equipment and furniture; maintaining an inventory of supplies; and other administrative functions.
- Legal staff provide legal counsel and guidance to the Panel and the agency, as well as oversee the appeal and regulatory process.

(Note: the ETP Organization Chart is provided in Appendix A.)

E. ASSESSMENT SUMMARY

Following is: a) a summary of the current state of the California economy, b) a description of ETP's progress in carrying out strategies, goals and objectives identified in the Strategic Plan for 2001-02 to support the needs of businesses and workers, and c) an outline of future challenges and opportunities, with respect to an assessment of ETP's external and internal environments.

1) Snapshot of the California Economy

A number of economic experts indicate that a current downturn in the State's economy, which began in 2001, is temporary, and predict an upswing, led by certain industry sectors, specific to various regions of the State.

California and the nation experienced a record period of expansion, economic growth, and rising living standards from 1994-2000. California's high technology, foreign trade, professional services and entertainment/tourism industries flourished with gains in output, jobs and wages. An increase in construction growth and worldwide economic gains also led to a rebound of the manufacturing sector.

However, 2001-2002 demonstrated an economic slowdown in both the State and nation. California's previous years' strong economic performance was largely dependent on the high tech sector, which was especially hard hit by the downturn. A dramatic decline in foreign trade, the State's energy crisis, and the terrorist attacks of September 11 further impacted the State's industries, especially tourism and hospitality.

Thus far, the downturn has been recognized primarily in terms of income loss as opposed to employment. While employment is expected to recoup its losses by the end of 2002, the decline in income is expected to be longer lasting.¹ However, the overall prospects for a healthier California economy are good, as evidenced by:

- The decline in California's economy has largely been due to high tech and foreign trade downturns; however, this appears to be temporary, because these are cyclical industries.
- The residential real estate market has generally remained strong throughout the downturn, with sales volumes continuing to rise.
- Construction is booming, in response to a shortage of new housing. It is anticipated this will spur the economy but place further pressure on the existing infrastructure.

¹ Legislative Analyst's Office, The 2002-03 Budget Bill: Perspectives and Issues

Industry Outlook

According to the Center for the Continuing Study of the California Economy², the same growth sectors that drove California's economic upturn from 1994 to 2000 will lead its recovery. These are:

- **High Technology**

High tech manufacturing is projected to grow six times as fast as other manufacturing industries in the United States during the next ten years. Most recent data shows California's share of new patents and venture has increased, and California firms have recovered all the share losses of the early 1990s and captured a record high 22.3 percent of U.S. high tech manufacturing jobs in 2001. The 2000 Annual Survey of manufacturers' reported that California accounted for 28.3 percent of the nation's high tech production.

- **Foreign Trade**

Trade volumes have increased dramatically with Mexico and Canada as a result of NAFTA. Mexico is the largest market for California exports. Pacific Rim countries are projected for the highest rate of economic growth in the decade ahead. California's exports and total trade with Asia rose at a rate of 25 percent before a slight decline in 2001. California ports have invested largely to prepare to handle larger ships and consequently higher trade volumes.

- **Entertainment and Tourism**

As the world's leading center for development of entertainment products and a premier destination for visitors, California jobs in the industry are expected to grow twice as fast as the total economy in the decade ahead. Motion picture production jobs are up 70 percent since 1990, with California's share of the film industry at 50 to 60 percent. The industry is entering a new phase of digitalization where technology and the Internet will play a much larger role in the creation and distribution of content. Despite 9/11, a rebound in tourism is expected to result in expansions in major amusement, sports, and entertainment facilities underway throughout California.

- **Professional Services**

Jobs in software, engineering, and management services are the fastest growing sector of the nation's wage and pay wages, upward of 50 percent above the national average. Computer services, including software development and Internet access tools, are leading the high wage growth. California leads the way for auto design centers with facilities for most of the top automakers. Despite the economic downturn, jobs in professional services have continued to flourish.

² Center for Continuing Study of the California Economy, California Economic Growth, 2002 Edition.

- **Manufacturing**

Manufacturing was the largest base in California's economy in 2001; California's share of production has increased from 7 to 22 percent in the past two decades. Jobs were added in apparel, beverages, textiles, special industry machinery and toys.

Challenges and Opportunities

- *Economies within California vary by region. Accordingly, each ETP field office will respond to the needs of the region it serves, based on the economic trends of that area. Economic trends in regions as they apply to the ETP regional offices include:*

- **North Hollywood Office (Los Angeles Basin; Southern California)**

The recession of 1990-1994 was felt most strongly in this region due to declines in aerospace and construction. By 2000, the area had recovered, with more jobs than in 1990. Strong growth in foreign trade, motion pictures, tourism, manufacturing, and multi-media/software will benefit the area and is projected to add more than 1.5 million jobs by 2010. Additionally, anticipated increases in the defense and aircraft industries will yield new job gains.

- **San Mateo Office (Silicon Valley; Bay Area)**

Foreign trade, computer services, and jobs relating to high tech manufacturing remain strong and are projected to add nearly one million, or one in four new State jobs, by 2010.

- **San Diego Office (San Diego Area)**

With a projected job increase of 33.7 percent, this area is expected to be one of the State's job growth leaders. The region's proximity to the Mexican border will enhance its foreign trade growth. Additionally, area growth is anticipated in biotech and telecommunications.

- **Sacramento Office (Central Valley; Sacramento, Northern State)**

This region is anticipated to grow by 28.9 percent by 2010. Regional growth will be driven by relocation of firms from urban areas with higher costs of doing business. Sacramento has become a competitive alternative to high tech companies looking to reduce costs. Several companies have announced plans to establish distribution centers in the area. State government is also expected to add more jobs, resulting in additional growth for both the consulting and legal fields. Declines in job growth are anticipated in regions of the State that have historically depended on agriculture, mining, and timber, primarily in the northern areas of the State, indicating a further need to provide assistance to these areas.

- *Training should be targeted to regions of the State according to their growth industries, in concert with ETP's marketing partners (growth industries meet most or all of the following criteria: (1) pay good wages, (2) provide secure employment, (3) face out-of-state competition, (4) have training programs supplemented in some*

manner by business, (5) support other industries in the area, and (6) show good performance under ETP contracts.)

- *At the same time, there is a need to target training to areas of high unemployment to assist businesses and workers in areas where the current downturn is more pronounced.*

2) Legislative Mandates/Priorities

The Panel's progress in meeting its mandates and priorities in 2001-02 includes:

- Achieved its funding goals by encumbering all available training funds by April 2002. Approximately 92 percent of the year's available training funds went to businesses facing out-of-state competition, with another 8 percent for Special Employment Training (SET) projects.
- Approved more than \$22 million for training in high unemployment areas (HUA), with a focus on the working poor. A total of \$6.2 million was provided for training to upgrade the skills of 5,286 working poor trainees (i.e., workers who have full-time jobs and stable employment, but need training to move to higher-wage employment).
- Emphasized service to small business, including approval of the development of a pilot project to test a streamlined process for businesses employing 100 or fewer workers to contract directly with ETP.
- Reviewed training-related policies and requirements, including: updating ETP's high unemployment area policy; holding a hearing on economic multipliers; strengthening criteria for SET projects, and initiating studies of the fixed fee reimbursement rates and the effectiveness of Structured On-site Training.
- Conducted quarterly forums with marketing partners to assess progress towards the Panel's marketing goals, that strengthened efforts with marketing partners to target growth industry sectors.
- Collaborated with the Workforce Investment Boards, with the Techforce initiative providing opportunities for WIB participation.
- Ensured that ETP funds were used to supplement employer-provided training through contracting requirements.
- Strengthened its employer contribution policy to require employers in projects for the training of unemployed workers, to provide a contribution towards the training-related costs.
- Continued to improve project performance rates and reduce disencumbrances. Last year, disencumbrances fell to 25 percent, from a historical rate of approximately 44%, continuing a downward trend over the past three years. It is anticipated the disencumbrance rate for 2001-02 and in future years will remain at 25 percent.

Challenges and Opportunities

- *The Panel can play a key role in supporting growth industries' need for trained workers, while also targeting areas within the State where employment is high and the downturn still evident.*
- *Funds should be specifically targeted to businesses in the manufacturing and high tech services sectors, given their importance to the State's economy and their high return on the investment of training funds.*
- *Under SET, the Panel should target specific industries and occupations that do not have out-of-state competition, but which are on the upswing and or have a high return on investment (e.g., construction).*
- *ETP needs to determine how it may support businesses and workers in growth industries that are typically difficult to fund, given issues such as low wage and high turnover (e.g., textiles, toys, apparel), possibly through Career Ladders, SET, or HUA, with the requirement that trainee wages and employment security increase.*
- *Given the Panel's approval of the concept for a Small Business Pilot, a pilot program should be designed, implemented, and evaluated to test the concept.*
- *The Panel should strengthen the certification requirement to ensure the supplemental nature of ETP training.*
- *The fixed fee and SOST study findings should be acted on in the upcoming fiscal year.*

3) New Economic Initiatives/Additional Training Needs

Despite the events surrounding the September 11 terrorist attacks and the recent economic downturn, demand for ETP training funds has exceeded the Panel's available resources for fiscal year (FY) 2001-02 – i.e., by April, 2002, the Panel had encumbered all \$82.7 million in available program funds. It is estimated that by the end of 2001-02, there will be approximately \$32.4 million in funding requests beyond the amount available for this fiscal year. This demand will be further affected by several major workforce initiatives that include:

- The California Career Ladders to the 21st Century Initiative, in collaboration with the Employment Development Department, that provides funds for training to workers in low wage jobs to help them advance into higher paying positions in jobs with career advancement opportunities.
- The Techforce Initiative created to train information technology workers, through local workforce investment boards, in support of the Governor's Information Technology Initiative.
- Responding to the needs of industries affected by the September 11 terrorist attacks, including airlines, tourism, manufacturing, and hospitality.

- The Governor has proposed a partnership of state workforce development agencies to address California's shortage of trained nurses. This is a three-year, \$60 million project, with potential funding from various agencies to help build the nursing workforce in California. The Governor has proposed that ETP be used to complement Workforce Investment Act funding, where appropriate.

Challenges and Opportunities

- *Given the unmet training needs of California's businesses, as evidenced by the demand for ETP funding in the current year, as well as the Panel's opportunity to support many significant workforce initiatives in the State, the Panel should seek additional training funds in next year's Budget Act.*

4) Customers and Stakeholders

ETP has a large constituency of customers and stakeholders. The Panel works closely with the Administration and Legislature for support of the program and to ensure their constituent's needs are met. Outreach is conducted for customers, stakeholders, and constituency groups including business, labor, government agencies, and contractor and consultant associations to ensure their participation in program improvements.

In order to ensure the program is accessible to businesses and workers throughout the State, ETP has a number of key partners who provide marketing outreach to their constituencies. These partners include: the California Association for Local Economic Development; the California Manufacturing and Technology Association; California Chamber of Commerce; the Workforce and Economic Development Program of the California Labor Federation; the Employment Development Department (EDD); the Entertainment Industry Development Corporation; the Latin Business Association; and the Technology, Trade and Commerce Agency.

ETP also works with local Workforce Investment Boards (WIBs) under the federal Workforce Investment Act as potential marketing partners. ETP consultants and other stakeholders also play a key role in marketing the program to potential contractors. All of these partners are instrumental in marketing the program directly to their various constituencies throughout the State.

The Panel focuses on continuous improvements to better serve internal and external customers. ETP also partners with its customers and stakeholders to identify and resolve issues, and direct policy changes as necessary.

Challenges and Opportunities

- *Continue meeting with legislators, executive agencies and legislative staff on a regular basis to inform them about the program and to seek their continued support.*
- *Enhance and strengthen ETP's marketing partnerships, to ensure cost-effective marketing to targeted industries by region.*
- *Work with customers and stakeholder groups to obtain ongoing feedback.*

5) Coordination with other workforce preparation and economic development entities.

As the State's only employer-driven program supporting industry specific retraining for incumbent workers, ETP differs from the many other workforce development organizations such as the Employment Development Department, the Department of Social Services, and local Workforce Investment Boards. Through a collaborative effort, workforce development organizations must work to become more streamlined in achieving common goals and objectives, and therefore more effective.

The Governor has submitted a proposal to streamline government by creating the California Workforce and Development Agency (CWDA). The CWDA will be led by a cabinet-level secretary and will encompass agencies including the Department of Industrial Relations (DIR), the Employment Development Department (EDD), the Agricultural Labor Relations Board (ALRB) and the Workforce Investment Board (WIB). ETP retains its independence under this reorganization, and will continue to have the ability to act directly on training proposals and policy.

Challenges and Opportunities

- *There is a further need to develop collaborative approaches in support of economic development and workforce preparation. Improvements in the coordination of workforce development efforts must be made to more clearly define the Panel's jurisdictions and avoid duplication of efforts between agencies.*
- *To enhance its interaction with the legislative and budget process and support its autonomy in its new role under the CWDA, the Panel should work to establish a separate departmental funding code in the State Budget.*

6) Results of Program Evaluations

Independent evaluations of the program over the years have attested to the significant value of ETP-funded training for workers, business, and the economy. Last year, researchers at California State University, Northridge (CSUN) completed a major two-year study that found ETP-funded training increased workers' earnings, reduced unemployment, helped increase the growth of California companies, and boosted economic expansion in the State.

The researchers also found that of the 45 states that have some type of publicly funded worker training program, ETP is the largest and most defining program in the United States. According to the researchers, ETP's biggest contribution may be that after employers experience the value gained from training their employees utilizing ETP funds they are more willing to increase their own investment in these workers' training.

ETP also participates in the SB 645 "Report Card", which is a statewide system to evaluate the effectiveness of California's workforce preparation programs. This statewide system was initiated in 1996 through SB 645 (Johnston) and provides annual reports on participating agencies' performance with respect to measures for employment retention, earnings, unemployment insurance savings, and public

assistance savings. The recently issued Third-Year PBA “report card” shows significant results for ETP in the applicable measures. These included:

- ETP trainees’ employment rate one year after program participation was over 97 percent for both new hires and retrainees;
- Both retrainees and new hires continued to be employed at high rates two and three years after training, with retention rates of 94 percent and 91.1 percent, respectively;
- ETP retrainees typically showed earnings gains of more than \$3,000 in the year after training, with average annual earnings of \$35,800; most new hires showed earnings gains of more than \$2,000 a year after training, with average annual wages of approximately \$23,000.
- The proportion of new hire trainee completers receiving unemployment insurance fell from 82 percent before training to 22 percent in the year after training.

Challenges and Opportunities

- *Given CSUN’s findings on the value of employer provided training, there is a continuing need to develop a plan for promoting and implementing best practices to encourage employers to increase their own worker training, as well as enhancing the Panel’s marketing and web site to promote the importance of employer-provided training.*
- *Further ETP-related evaluations would benefit the Panel, including a new study of the effectiveness of ETP training, as well as a study of ETP-funded Career Ladder projects.*

7) Internal Process Improvements

The Panel continues making improvements to its processes to increase program effectiveness, specifically:

- The Panel is focusing on improving its on-line processes, enhancing its enrollment, invoicing, and training tracking systems to simplify work processes and provide better service to customers. The Panel is working to automate its orientation and eligibility processes on-line, and is studying the feasibility of using electronic signatures to further simplify the application and eligibility processes. To better meet the needs of its customers, the Panel continues to enhance its public web site, making information more accessible and implementing on-line customer surveys.
- The Department of Information Technology has approved the Panel’s Operational Recovery Plan (ORP). The Panel will conduct periodic testing of the ORP. The Panel is in compliance with Tier 1 and is working towards completion of Tier 2. The Panel will also implement new procedures for tracking software licenses as required by State Administration Manual.

- The Panel ensures customer input through public comment at monthly Panel meetings, and via its Internet Home Page. In FY 2001-02, the Panel enhanced the public's ability to provide comments and suggestions through the ETP home page, and surveyed contractors whose agreements were terminated.
- ETP developers and monitors provide ongoing assistance to contractors throughout development and implementation of their agreements. A pilot project was conducted last year in the San Diego field office in which development and monitoring were combined to provide seamless service to contractors. This model was subsequently implemented in the North Hollywood office. It will be implemented in all regional offices in the upcoming year, based upon the experience gained in the San Diego and North Hollywood models.

Challenges and Opportunities

- *Ensuring ETP's data needs are met.*
- *Ensuring agency-wide feedback on all proposed changes to processes and procedures, particularly those impacting the management information system (MIS) and on-line systems.*
- *Meeting agency equipment and ITU staff training needs within budget constraints.*
- *Expand customer input to obtain better and timelier feedback from contractors with active contracts, contractors who have completed contracts, and contractors who have terminated contracts or withdrawn their training requests.*
- *Enhancing customers' ability to provide direct feedback via ETP's web page.*
- *Implementing seamless development and monitoring in ETP offices, statewide.*

8) Anticipated Revenues and Expenditures

In setting its future course, the Panel will give careful consideration to its available resources in order to prioritize the use of its limited funds. The estimated funding available to ETP for fiscal year 2002-03 is \$94 million, which consists of the Panel's annual Budget Act appropriation and unearned training contract funds available to be reinvested for use. These funds are allocated for expenditure into the following three budget categories:

- (1) Training: \$82 million to fund training and employment retention for incumbent workers and unemployed workers;
- (2) Marketing and Research: \$1.5 million for program marketing, research and evaluations conducted by external consultants under contract to the Panel; and
- (3) Program Administration: \$10.5 million for operational costs to administer the program.

The following table illustrates anticipated revenues and expenditures in FY 2002-03.

FY 2002- 03 Revenue & Expenditures	
<u>Revenue (Estimated)</u>	
Appropriation.....	\$76,033,000
Funds Reinvested	<u>18,000,000</u>
Total.....	<u>\$94,033,000</u>
<u>Expenditures (Planned)</u>	
Training	\$82,033,000
- Economic Development.....	73,833,000
- Special Employment Training	8,200,000
Marketing and Research	1,500,000
Program Administration	<u>10,500,000</u>
Total.....	<u>\$94,033,000</u>

Challenges and Opportunities

Given ETP's estimated appropriation for 2002-03, the Panel's resources for the funding of training next year will be far less than anticipated demand. The estimate of demand is based on the following:

- *There will be an estimated \$32.4 million in ETP funding requests beyond the amount available for training in 2001- 02 fiscal year. This extra demand is expected to continue and increase in future years.*
- *This demand will be further increased by ETP's involvement in workforce initiatives such as California Career Ladders to the 21st Century; Techforce; 9/11 response efforts; and the Governor's Nurse Workforce Initiative.*
- *Therefore, it will be necessary for the Panel to seek an additional appropriation from the ETF, in next year's Budget Act.*
- *In addition, prior year obligations, resulting from incremental encumbrances will mean that a portion of FY 2002-03 available training funds will have already been obligated prior to the start of the fiscal year.*

F. Goals and Objectives (FY 2002-03)

Goal #1:

To increase the impact on California's economy of the training provided through ETP funds.

Objectives:

- *Though collaboration with ETP marketing partners, target key basic industries by region, i.e., the manufacturing and high technology services sectors (e.g., computer programming and network design; software development; telecommunications, and multimedia/entertainment).*
- *Increase funds approved, by 10 percent, for businesses in key basic industries, i.e., the manufacturing and high technology services sectors (e.g., computer programming and network design; software development; telecommunications, and multimedia/entertainment).*
- *Target up to 10 percent of available training funds for Special Employment Training (SET) projects to support growth industries that do not have out-of-state competition – i.e., construction, health care, and research and development.*
- *Initiate separate independent studies to determine: a) the impact of ETP-funded training on businesses' viability and to assess the level of employer supported training; and b) the effectiveness of ETP-funded Career Ladder training.*
- *Support industry based workforce development needs, through funding support for the Governor's Nurse Workforce, Techforce, and Career Ladder initiatives.*

Goal #2: To increase participation in ETP and workforce training in target industries by improved marketing efforts.

Objectives:

- *Increase participation in employment training through marketing, public relations and outreach in coordination with marketing partners and other stakeholders with access to target industries.*
- *Develop performance based marketing contracts that reward improved achievement of marketing goals while creating a seamless interaction with ETP's operation.*
- *Market special projects as part of California Workforce Development Agency and other workforce partner initiatives.*

Goal #3:

To increase the success rate among projects selected for funding.

Objectives:

- *Maintain a disencumbrance rate of 25 percent or less for ensuing fiscal years.*
- *Evaluate the incremental system of encumbering funds to determine if its objective is being met and to determine opportunities to further minimize training fund disencumbrances.*
- *Implement seamless development and monitoring in all ETP regional offices, based on outcomes of pilot tested in the San Diego regional office.*
- *Evaluate the utility of assessing and targeting training projects on the basis of employee productivity and market expansion.*

Goal #4:

To increase the amount of ETP training funds available for qualified proposals.

Objectives:

- *Increase the Budget Act appropriation for the ETP program by \$35 million by July 1, 2003.*
- *Use increased funding to address:*
 - *Critical workforce needs identified by the CWDA and the Panel;*
 - *Increase employer-labor training initiatives;*
 - *Expand the number of companies with effective and sustainable workforce development programs.*

Goal #5:

To leverage funds from the private sector in support of employer provided training.

Objectives:

- *Strengthen agreement requirements to ensure that ETP funding will be used to supplement training provided by a company during the normal course of business.*
- *Increase percentage of employer contributions to the cost of training by 10 percent.*

Goal #6:

To ensure that ETP funds continue to be invested in projects that produce above average salary increases and above average job retention rates.

Objectives:

- *Ensure at least 95% of ETP trainees remain employed in the same occupation and industry for which they were trained, one year after completing training and employment retention.*
- *Ensure at least 90% of ETP trainees remain employed in the same occupation and industry for which they were trained, three years after completing training and employment retention.*
- *Ensure that ETP retrainees and new hires receive wage increases, on average, of at least 10 percent one year after completing training and employment retention.*
- *Use ETP training assistance to leverage reduced workforce turnover, with the objective of an overall turnover rate under 20%.*
- *Explore a limit for waivers to wage requirements for working poor and career ladder trainees at a maximum of 25% below the required ETP minimum wage.*

Goal #7:

To reduce the barriers to successful participation in the ETP program.

Objectives:

- *Implement a pilot project to facilitate the ability of small businesses with 100 or fewer workers to contract directly with the Panel.*
- *Explore the use of a “mentor” system to expand industry-based workforce training.*

Goal #8:

To continuously increase the efficiency and effectiveness of the ETP program.

Objectives:

- *Improve on-line access for ETP customers.*
- *Undertake a study to identify better training project evaluation tools.*
- *Continue automating processes, forms, and procedures – streamlining and expediting the contracting process for ETP customers.*
- *Assess data needs pertinent to each of the Panel’s critical functions; ensure that automation processes yield necessary data.*
- *Automate administrative processes to better track program administration, marketing and research expenditures.*

- *Continue an ongoing review of training-related regulations and policies, including: a) refining criteria for basic industries/out-of state competition; b) addressing issues relevant to apprenticeship training; c) reevaluating appropriate types and levels of employer contributions; and d) determining when employment retention requirements should be modified.*
- *Explore creating a customer advisory committee to help guide IT initiatives.*

Goal #9:

Increase the skills and employability of the workforce in areas of high unemployment.

Objective:

- *Target at least \$15 million of available training funds for workers in high unemployment areas, with a focus on helping the working poor move to higher-wage jobs.*
- *Increase the number of working poor trainees served by 10%.*

Goal #10:

Distinguish ETP's role as a partner in the new Labor Agency (CWDA).

Objectives:

- *Submit a Budget Change Proposal to establish ETP's own departmental funding code, in order to improve the legislative and budget processes and strengthen its role in the California Workforce Development Agency.*
- *Partner with California Workforce Investment Board to develop collaborative approaches in support of economic development and workforce preparation.*
- *Conduct a forum with other stakeholders in the economic development and workforce preparation arenas to exchange ideas and strategies for eliminating duplicative services and coordinating services to better serve customers.*